

SUMMARY ANALYSIS OF AMENDED BILL

Franchise Tax Board

Author: Lempert Analyst: Roger Lackey Bill Number: AB 1774

Related Bills: See Prior Analysis Telephone: 845-3627 Amended Date: 02-23-2000

Attorney: Patrick Kusiak Sponsor:

SUBJECT: NOL Deduction Carryovers/Increase Percentage and Length of Carryover

C DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as introduced January 20, 2000.

AMENDMENTS IMPACT REVENUE. A new revenue estimate is provided.

AMENDMENTS DID NOT RESOLVE THE DEPARTMENT'S CONCERNS stated in the previous analysis of bill as introduced/amended _____.

FURTHER AMENDMENTS NECESSARY.

DEPARTMENT POSITION CHANGED TO _____.

X REMAINDER OF PREVIOUS ANALYSIS OF BILL AS INTRODUCED January 20, 2000, STILL APPLIES.

OTHER - See comments below.

SUMMARY OF BILL

This bill would incrementally increase the general net operating loss (NOL) deduction carryforward amount. The amount would increase from 50% of the total NOL for taxable and income years beginning before January 1, 2000, to 55% for taxable and income years beginning on or after January 1, 2000, and before January 1, 2002, and to 60% for taxable and income years beginning on or after January 1, 2002. Additionally, this bill would increase the period to carry forward an NOL from the current five years to ten years for all NOLs generated for taxable and income years beginning on or after January 1, 2000. The bill would retain current preferential NOL treatment for new and small businesses.

SUMMARY OF AMENDMENT

The February 23, 2000, amendment incorporated the amendments provided in the department's prior analysis of AB 1774, as introduced January 20, 2000. The amendments resolved the department's concerns and provided for the author's intent to increase the percentage of NOL carryforward to 55% and finally 60% for the NOL amount that exceeds the net "new business" or "eligible small business" NOL and increased the carryforward for "new businesses" from eight years to ten years.

Except for the discussion of this analysis, the department's analysis of AB 1774, as introduced January 20, 2000, still applies.

Board Position:

<u> </u> S	<u> </u> NA	<u> </u> NP
<u> </u> SA	<u> </u> O	<u> </u> NAR
<u> </u> N	<u> </u> OUA	<u> X </u> PENDING

Legislative Director

Date

Johnnie Lou Rosas

3/22/00

TECHNICAL CONSIDERATIONS

The bill added an inadvertent reference to taxable years beginning on or after January 1, 2004, in the Personal Income Tax Law amendments. The bill now prescribes two substitution rules for the "20 taxable years" under federal law for taxable years beginning on or after January 1, 2004. Amendment 1 would make this correction.

The amendments recommended by the department were incorporated with a technical flaw. The bill now references the "15 taxable years" described under the federal law, when it should reference "20 taxable years." Amendments 2 and 3 would make this correction.

BOARD POSITION

Pending.

Analyst	Roger Lackey
Telephone #	845-3627
Attorney	Patrick Kusiak

FRANCHISE TAX BOARD'S
PROPOSED AMENDMENTS TO AB 1774
As Amended February 23, 2000

AMENDMENT 1

On page 5, line 4, strikeout "and on or after January 1, 2004,"

AMENDMENT 2

On page 5, strikeout lines 14 and 15, and insert:
modified to substitute "10 taxable years" in lieu of "20 taxable years."

AMENDMENT 3

On page 12, strikeout lines 28 and 29, and insert:
modified to substitute "10 taxable years" in lieu of "20 taxable years."